



February 2006 Finance Report

Information Technology Investment Board Finance and Audit Committee July 2006

This Finance Report covers the following topics:

- Fiscal Year 2006 Financial Results
- Memoranda of Understanding (MOU) With Agencies
- Legislative Budget Action
- IT Financial Benefits Update

Fiscal Year 2006 YTD Financial Results (thru May 31, 2006)

May 2006 YTD Financial Results All Funds

	<i>FY 2006 Budget</i>	<i>May-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>All Funds</u>			
Revenues, including transfers in	\$296,050,223	\$265,987,084	90%
Expenses, including transfers out	<u>294,043,960</u>	<u>255,659,576</u>	87%
Net Change	2,006,263	10,318,508	
Retained Earnings, July 1	51,427,204	54,110,505	
Ending Retained Earnings	\$ 53,433,467	\$ 64,429,013	

Overall, financial activity in all funds through eleven months of fiscal year 2006 is in line with expectations. Though the fiscal year has ended, the Commonwealth's Consolidated Accounting and Reporting System (CARS) is not officially closed for financial report purposes until August 17, 2006.

Through May, VITA prompt payment statistics indicate that 97.3 % of VITA's vendor payments were made on time.

**May 2006 YTD Financial Results
Internal Services Fund**

<u>ISF</u>	<i>FY 2006 Budget</i>	<i>31-May-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
Revenues, including transfers in	\$248,968,827	213,293,695	86%
Expenses, including transfers out	<u>246,567,038</u>	<u>206,563,668</u>	84%
Net Change	2,401,789	6,730,027	
Retained Earnings, July 1	29,576,780	32,260,081	
Ending Retained Earnings	\$ 31,978,569	\$ 38,990,108	

The Internal Service Fund program represent the core of VITA's business and accounts for the majority of revenues and expenses, including telecommunications, computer services, and direct billed/Memorandum of Agreement services.

Direct billed/Memorandum of Agreement services activity continues to be the highest revenue producer for VITA, with about \$101.3 million in receipts. But legacy computer services and telecommunications services also remain strong, with year to date revenues of about \$43.1 million and \$64 million, respectively. Although both revenues and expenses are slightly below targets thorough May 31, brisk year end activity in June will bring revenues and expenditures more in line with estimates. Last year's revenues for June in the program we on average double a normal month throughout the rest of the year.

Cash with Treasurer of Virginia

30-Jun-05	\$ 17,007,934
31-May-06	\$ (6,861,143)
30-June-06	\$ 18,455,809

Since inception VITA has historically capitalized agency expenditures, paying personal service and other costs and the seeking reimbursement from state agencies. This has frequently led to negative cash balances, particularly toward year end. At the end of May 2006 VITA's cash balance in the State Treasury was actually negative, though more than off-set by Accounts Receivable from the affected state agencies. VITA's cash on hand moved back into positive territory in late June, after agencies received and paid their June bills.

**May 2006 YTD Financial Results
Enterprise Funds**

	<i>FY 2006 Budget</i>	<i>31-May-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>Enterprise</u>			
Revenues, including transfers in	\$39,005,696	\$ 43,273,150	111%
Expenses, including transfers out	<u>39,005,696</u>	<u>42,562,040</u>	109%
Net Change	0	711,110	
Retained Earnings, July 1	20,442,577	20,442,577	
Ending Retained Earnings	\$ 20,442,577	\$ 21,153,686	

VITA's Enterprise Funds are comprised of the portal access program and Wireless E-911 revenues. VITA and Virginia Interactive revenues equate to about \$4.0 million per year.

E-911 revenues are running ahead of budget by about 10% for the year to date. The Virginia Wireless E-911 Services Board promotes and assists in the development, deployment, and maintenance of enhanced wireless emergency telecommunications services and technologies. Budgeted YTD revenues of over \$39 million are derived from surcharges assessed against wireless users; as of May 31, over \$37 million has been paid out to E911 providers. A technical increase to E-911 appropriations was approved in the 2006 Special Session, and will bring actual expenditures and budget into line for the year.

**May 2006 YTD Financial Results
General Fund**

	<i>FY 2006 Budget</i>	<i>31-May-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>GF</u>			
Revenues, including transfers in	\$3,245,700	\$ 3,245,700	100%
Expenses, including transfers out	<u>\$ 3,245,700</u>	<u>\$ 2,054,696</u>	63%
Net Change	\$200,513	1,191,004	
Retained Earnings, July 1	0	0	

Ending Retained Earnings	\$0	\$1,191,004
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The General Fund appropriation for operations totals \$3.1 million, and an additional one time discretionary grant for development of a generic dashboard product for use by state agencies and institutions in their management of diversity programs and other purposes. A \$1.6 million adjustment, included in the totals above, was approved in the legislature's amendments to the 2004-2006 Budget Bill this spring. Without that adjustment, agencies would have been assessed a "savings" adjustment (budget reduction) of an equal amount, based on estimates of the impact of procurement and telecommunications rate decreases as a result of VITA contract actions.

**February 2006 YTD Financial Results
Special Revenue Funds**

<u>Special</u>	<i>FY 2006 Budget</i>	<i>31-May-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
Revenues, including transfers in	\$3,880,000	\$ 4,813,187	124%
Expenses, including transfers out	<u>4,033,401</u>	<u>3,388,344</u>	84%
Net Change	\$ (153,401)	\$ 1,424,843	
Retained Earnings, July 1	\$ 1,165,722	\$ 1,165,722	
Ending Retained Earnings	\$ 1,012,321	\$ 2,590,565	

Special Revenue Funds are comprised of funding to support acquisition services (IFA), public-private partnerships (PPEA), Virginia Geographic Information System (VGIN) services, and the Virginia Technology Infrastructure fund. Year to date fund balances total about \$1.8 million for IFA, and about \$0.6 million for VGIN. The Industrial Funding Adjustment (IFA) account was the only area of Special Funds with significant activity during the past quarter. Revenues for the IFA derive from contractual payments made by the state's information technology vendors, based on the level of purchases of their products. This account funds acquisition and general government activities, including support to the Governor's Office that would not normally be included as overhead billed to state agencies and other customers.

**May 2006 YTD Financial Results
Federal Funds**

<u>Federal</u>	<i>FY 2006 Budget</i>	<i>31-May-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
Revenues, including transfers in	\$ 950,000	\$ 1,352,352	142%
Expenses, including transfers out	<u>1,192,125</u>	<u>1,090,828</u>	92%
Net Change	\$ (242,125)	261,524	
Retained Earnings, July 1	\$ 242,125	\$ 242,125	
Ending Retained Earnings	\$0	\$ 503,649	

As expected, VITA received the first \$617,500 drawdown against a \$950,000 Homeland Security Grant. The remaining drawdown of \$332,500 was received in June. VITA has already committed all of the funds drawn down and expects to spend the entire \$950,000 provided by the end of the grant period. Also, at the request of the Governor's Office, VITA received an additional \$734,852 in Homeland Security Grant funds to pay for services provided by Unisys for Telecommunication/IT Services for the Commonwealth Inter-operability Coordinators Office. To date, \$381,000 of this grant has been spent. We do not expect to spend all of these funds by fiscal year end.

Memoranda of Understanding With Agencies

As part of the transition of services to Northrop-Grumman, and the planned evolution of unit cost, or shared services, rates for billing, VITA began entering into Memorandums of Understanding with customer agencies. The agreements will allow VITA and the agencies to better plan for service levels and cash flow in the future.

At the end of May 2006 fifty-nine (59) agencies and VITA have fully executed Memorandums of Understanding for personal services (Phase 1). Four (4) MOU's remain unexecuted and under continuing negotiation with agency heads and cabinet officials. Taken together these sixty-three documents cover VITA provided services for all ninety (90) Executive Branch agencies. The unexecuted agreements involve unresolved issues related to documentation for federal funding purposes, and/or disagreement regarding the scope of VITA control of assets that were formerly maintained by the agencies. The personal service agreements account for approximately \$53 million in VITA revenues next year.

In June, after a series of agency head and cabinet briefings, VITA staff began meetings with the same Executive Branch agencies to adopt Phase 2 (non-personal service) agreements. These agreements are estimated to account for \$72-75 million in VITA revenues next year.

Legislative Budget Action

The 2006 General Assembly schedule called for publication of the budget conferees' recommendations, final vote, and adjournment on March 11. As the two houses reached an impasse on transportation funding and other Budget issues, in March the General Assembly adjourned without action on amendments to the 2004-2006 biennial budget, nor adoption of a new 2006-08 biennial budget.

The General Assembly reconvened in Special Session this spring, and on June 6, 2006 adopted amendments to the 2004-2006 Budget Bill, and on June 20 adopted a new 2006-2008 Budget Bill. Items directly related to VITA are summarized in the following table.

	<u>FY06</u> <u>GF/NGF</u>	<u>FY07</u> <u>GF/NGF</u>	<u>FY08</u> <u>GF/NGF</u>
<u>Executive Action</u>			
Central Account Adjustment (technical)		173,009	174,207
Eliminate one-time GIS funding		(704,715)	(704,715)
VA Base Map and Address File operations		300,000	300,000
Agency Savings/Efficiencies	1,644,000	(3,288,000)	(1,644,000)
E-911 Revenue Increase		6,495,000	7,495,000
Acquisition Services Special Fund		2,940,000	3,087,000
Authorize PPEA - NG Agreement	Language		
Setup VITA Agency Advisory Committee		Language	Language
Require Exec Branch Approval of ISF Rates		Language	Language
Strengthen VITA Svcs Applicability to Locals		Language	Language
<u>Central Account</u>			
Update Va Aerial Base Mapping		1,975,000	485,000
<u>Legislative Action</u>			
Update Va Aerial Base Mapping		1,145,485	(485,000)
Quality Control for Virginia Base Map Update	\$ 542,500		

Highlights:

- The 2004-2006 Budget Bill
 - includes language approving the agreement with Northrop Grumman.
 - reinstates general fund appropriations that had been earmarked as a budget reduction, based on contract savings on IT goods and services.
- The 2006-2008 Budget Bill
 - includes funds to complete the Virginia Base Map update, and establishes a new self-funded program to support these efforts in the future.

- includes 3 FTEs for base map and central address file operations and 3 FTEs for regional Wireless E-911 support and coordination.
- increases general fund appropriations reductions for state agencies, based on contract savings on IT goods and services.
- increases Wireless E-911 revenues in line with actual collections experience.
- provides supplemental funds for customer agencies to off-set, in part, new internal service fund charges for security and project management and the GF portion of COLA expenses for IT employees transitioned to VITA.
- provides partial funding for the Enterprise Applications PPEA in the Governor's Office budget.

IT Financial Benefits Update

In addition to their other benefits, infrastructure IT initiatives are projected to produce significant financial benefits (cost savings and cost avoidances) to both the Commonwealth generally and to specific customer State agencies and localities. A summary is shown in the following Table.

IT Financial Benefits/Savings (\$000)

	FY 2004	FY 2005	FY 2006 (Annual Est.)	FY 2006 (Year-To-Date thru 5/31/06)
Cost Savings	\$15,858	\$29,544	\$26,000	\$21,410
Cost Avoidance	\$875	\$13,455	\$17,395	\$15,945
Total	\$16,733	\$42,999	\$43,395	\$37,355

These savings represent contract rate reductions and discounts. The primary savings categories are telecommunications (Verizon and COVANET) and Virginia Partners in Procurement (VaPP). The VaPP savings reported here are from IT purchases (hardware, software, etc.).

The "FY 2006 Year-To-Date" cost savings and cost avoidance figures are for the period 7/1/05—5/31/06 (11 months), except for the VaPP savings data, which covers only the period 7/1/05—3/31/06 (9 months). Reporting on cost saving and cost avoidance data typically lags up to 90 days, and further adjustments are possible.

Based upon the information available to date, VITA appears to be on track to meet its FY 2006 annual estimates for cost savings and cost avoidances when the final FY 2006 figures become available.